

SUMMIT POINTE
Community Mental Health Authority
Financial Statements
September 30, 2006



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Summit Pointe CMH Authority	County Calhoun
Fiscal Year End September 30, 2006	Opinion Date December 12, 2006	Date Audit Report Submitted to State March 13, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

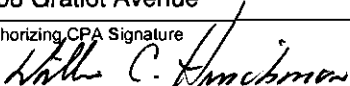
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Roslund, Prestage & Co., P.C.		Telephone Number (989) 463-6123		
Street Address 308 Gratiot Avenue		City Alma	State MI	Zip 48801
Authorizing CPA Signature 		Printed Name William Hirschman		License Number 1101016179

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INDEPENDENT AUDITOR'S REPORT

Summit Pointe
Battle Creek, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund and the aggregate remaining fund information of Summit Pointe as of and for the year ended September 30, 2006, which collectively comprise Summit Pointe's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Summit Pointe's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Summit Pointe as of September 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 12, 2006 on our consideration of Summit Pointe's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

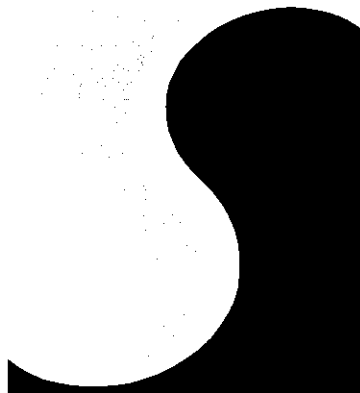
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Summit Pointe's basic financial statements. The other supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Summit Pointe. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Company P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 12, 2006

MANAGEMENT DISCUSSION AND ANALYSIS



SUMMIT POINTE

Management's Discussion and Analysis

For the fiscal year ended September 30, 2006

Management of Calhoun County Community Mental Health Authority (CMHA), also known as Summit Pointe, presents the following discussion and analysis of financial activities during fiscal year 2005/2006. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities, and to identify material changes in financial position and results of operations. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

Beginning October 1, 2002, the Medicaid funds for Barry, Berrien, Branch, Calhoun, and Van Buren counties were paid to Summit Pointe. Summit Pointe entered into a contract with Michigan Department of Community Health (MDCH) to administer the above Medicaid funds for behavioral health services. Summit Pointe continued to operate as Prepaid Inpatient Health Plan (PIHP) in fiscal year 2005/2006. Summit Pointe Board delegated the administration of regional Medicaid contract to Venture Administrative Board. Venture Administrative Board consists of two voting members from each of the five member counties and operates under the terms of the Intergovernmental Agreement for the Transfer of Functions and Responsibilities (ITRFA).

Venture Administrative Board set up a goal to become a successful benefits manager. To achieve this goal the organization was able to ensure the following mega ends statements:

- Acceptability (plan members are satisfied with the processes and outcomes of their behavioral health care services);
- Value (the community benefits from positive gains in individual and population behavioral health);
- Accessibility (plan members requiring behavioral health services are aware of, seek and connect with the right service at the right time in the right location);
- Impact (plan members utilizing behavioral health services experience improvements in their quality of life. The focus has been on maximizing recovery and self-sufficiency);
- Risk Management (Venture and its five affiliates will suffer no critical consequences of any type, including but not limited to fiscal, quality, public perception or legal).

Management's Discussion and Analysis

For the fiscal year ended September 30, 2006

Fiscal year 2005/2006 was a major year for our development. We made serious strides in building a state of the art information management system; strengthened our proof of performance to the point of scoring very high in the independent External Quality Reviews performed on PIHPs in the state; continued our evolution into commonly administered evidence based practices; created a model utilization management system that builds in affiliate development as a goal and intrinsic process; improved our financial planning and monitoring systems; prepared for managing substance abuse benefits; prepared to meet federal standards on our performance improvement program.

Continued commitment to evidence-based practices and uniform benefit for consumers in the region remained our high priority. 450 clinicians attended trainings in the areas of Family Psycho-education, Integrated Treatment of Co-occurring Disorders, Adolescent Substance Abuse Treatment, Cognitive Therapy (Extramural/Co-occurring), Dialectical Behavior Therapy (Intensive/Skills/Adolescent/ Developmental Disabilities/Substance Abuse), Geriatric Treatment, CAFAS, and Diagnosis of Substance Use Disorders. We made significant investments in clinical development that ensures the highest quality of care.

Summit Pointe continued to contract with the MDCH for the State General Fund services for priority population residing in Calhoun County. Summit Pointe also continued to provide behavioral health services to other segments of population. First and third party payors, contractual agreements and other non-MDCH sources of income accounted for 16.1% of Summit Pointe revenues as a Host Board.

FINANCIAL HIGHLIGHTS

Venture PIHP was able to achieve its financial goals in fiscal year 2005/2006. Regional Medicaid revenues exceeded expenditures by \$2.5 million. These funds will be spent on supports and services to Medicaid eligible customers in fiscal year 2007. Specialty Managed Care Services Internal Service (Risk Reserve) Fund (ISF) increased by \$902 thousand and reached \$5.1 million. The ability to fund ISF at the maximum allowable level (per the MDCH contract, 7.5% of Medicaid revenues) demonstrates prudent risk management strategy.

Summit Pointe as a Host Board posted a loss of \$44 thousand of General fund. Summit Pointe used General Fund risk reserve to cover the loss. General Fund Formula Services ISF decreased by \$33 thousand and reached \$226 thousand or 3.4% of General Fund revenues. Local funds (patient service revenues, interest income, county contribution, and other) were less than local match obligations by \$222 thousand. We used unrestricted fund balance to cover local match deficit. Cost in excess of reimbursements from Medicaid Medical Health Plans and acquisition of residential properties (to provide affordable housing for Medicaid and indigent customers) were the major factors that contributed to the local funds deficit in fiscal year 2005/2006.

Management's Discussion and Analysis

For the fiscal year ended September 30, 2006

OVERVIEW OF FINANCIAL STATEMENTS

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) - GASB 34, require the presentation of two types of financial statements. These are authority-wide financial statements and fund financial statements.

Authority-wide financial statements include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when "earned" and expenses recorded when "incurred", without regard to the timing of cash receipts or disbursement.

The statement of net assets includes all of the assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position. The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

Fund financial statements contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the authority-wide statements. The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as an expenditure. Fund financial statements are essentially identical in presentation, format and content to the prior year's annual financial reports.

Fund financial statements are divided into two categories. These are special revenue fund financial statements and proprietary fund financial statements.

Special revenue fund financial statements show how the community mental health supports and services programs were financed in the short term as well as what remains for future spending.

Proprietary fund financial statements show internal service funds reserved for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to specialty supports and services at-risk contracts.

Management's Discussion and Analysis

For the fiscal year ended September 30, 2006

FINANCIAL POSITION

Key financial indicators of Summit Pointe are presented in Table 1.

	Dan & Bradstreet Industry Benchmarks			
	<u>Sep-06</u>	<u>Sep-05</u>	<u>Upper Quartile</u>	<u>Median</u>
<u>Self-Sufficiency</u>				
Net Income Margin, %	4.2	4.8	6.0	1.7
Return on Assets (annualized), %	12.3	13.7	7.5	3.8
Net Income as % of Fund Balance	19.3	20.4	13.4	7.6
<u>Financial Stability</u>				
Current Assets to Current Liabilities	1.8	2.3	2.7	1.7
Total Liabilities to Fund Balance	0.50	0.50	0.33	0.69
Fixed Assets to Fund Balance	0.11	0.11	0.39	0.60
Cash Available for Fund Balance, %	79.7	56.8	N/A	N/A
<u>Efficiency</u>				
Days in Accounts Receivable	87	103	23	31
Days in Accounts Payable	22	18	6	8
Revenues to Net Working Capital	10.4	6.9	15.2	6.4
Revenues to Assets	2.9	2.9	2.3	1.8

Current financial ratios are compared with financial indicators for the last fiscal year and industry statistics (upper quartile and median). Dun & Bradstreet provided benchmarks for the specialty outpatient clinics industry.

Significant investments in staff and providers development, information technology, prevention and community outreach activities contributed to the slight decrease of current year operating margins. Net income margin decreased by 0.6 percentage points and reached 4.2%. However, our net income margin is 2.5 percentage points above the industry median. We believe that Summit Pointe will benefit from reinvestment initiatives in fiscal years 2007 and 2008. We expect long-term positive effect on cost effectiveness and efficiency of operations and quality of services.

Financial stability indicators prove that Summit Pointe has sufficient reserves and is able to meet its current and long-term obligations. Detailed analysis of changes in Fund Balance is presented in Table 2. Summit Pointe has cash and cash equivalents available to cover 79.7% of unrestricted fund balance. This ratio increased from 56.8 % and 71.7% as of the end of September 2005 and 2004 respectively. Cash coverage of the fund balance at almost eighty percent demonstrates the agency's financial stability. As we predicted a year ago, decrease of this ratio in fiscal year 2005 was temporary due to increase of accounts receivable from Venture affiliates. This indicator not only reached seventy percent level again by the end of

Management's Discussion and Analysis

For the fiscal year ended September 30, 2006

fiscal year 2006 but significantly exceeded it. Effective cash management was the key factor that determined this trend.

The ratio of current assets over current liabilities (current ratio) of 1.8 is lower than that in September 2005 by 21.7%. However, it is 5.9% above industry median statistics. Decrease of current ratio was attributable to the growth of accounts and claims payable. Our days in accounts payable increased from 18 to 22. It allowed us to extend suppliers' credit, optimize cash flows, and generate additional interest income. At the same time Summit Pointe met its contractual payment obligation (the majority of our contracts require payments within 30 days). Current ratio of 1.8 demonstrates our solid liquid position. Overall, the "quality" of the agency's unrestricted fund balance number remains very high.

Table 2

Statement of Changes in Fund Balance

	Balance at 10/1/2005	Increase (Decrease)	Balance at 9/30/2006
Special Revenue Fund			
Reserved for Community Reinvestment	2,211,808	4,128,836	6,340,644
Reserved for Capital Purposes	1,482,644	515,820	1,998,464
Unreserved	8,383,801	(4,090,177)	4,293,624
Total Special Revenue Fund	12,078,253	554,479	12,632,732
Internal Service Fund			
Medicaid	4,224,315	902,243	5,126,558
General Fund	258,706	(32,816)	225,890
Total Internal Service Fund	4,483,021	869,427	5,352,448
Grand Total Fund Balance	<u>16,561,274</u>	<u>1,423,906</u>	<u>17,985,180</u>

Increase in the fund balance restricted for community reinvestment is attributable to the operational efficiencies realized in fiscal year 2006 primarily in Medicaid sector. Summit Pointe operated in fiscal year 2006 without general fund contract with Michigan Department of Community Health. The financial uncertainty around State of Michigan General Fund appropriation and high probability of General Fund cuts determined our decision to set aside additional reserves. Increase in Medicaid ISF is attributable to interest income of \$181 thousand and additional contribution of \$721 thousand. Fund balance restricted for capital purposes increased due to significant purchases. Summit Pointe acquired \$568 thousand of capital assets in fiscal year 2006. Summit Pointe did not have long-term debt as of September 30, 2006. Acquisition of residential properties to provide affordable housing to consumers also contributed to the decrease of unreserved fund balance.

Management's Discussion and Analysis

For the fiscal year ended September 30, 2006

The unrestricted fund balance, fund balance reserved for community reinvestment, and internal service fund represent an estimated 72 days of operations based on the actual expenses for fiscal year 2006.

SUMMARY OF ACTIVITIES

Total revenues for the fiscal year 2006 were equal to \$80.9 million or 100.1% of the budget. Total expenditures (excluding community reinvestment) were equal to \$78.6 million or 100.1% of the budget. Excess of revenues over expenditures of \$2.3 million (excluding community reinvestment) was equal to the budgeted amount.

Prior year revenues comparison is presented in Table 3.

Medicaid specialty supports and services revenue represents 84.5% of total revenue and increased by \$10.5 million or 18.2% compared to the prior year. A significant increase in the number of Medicaid eligible persons and capitation rates were the major contributing factors.

State general fund priority population revenue (formula funding) represents 7.6% of total revenue and decreased by \$521 thousand or 7.8% compared to the prior year. This funding is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide the supports and services to indigent priority populations, including state facility utilization and other allowable expenses. General fund cuts represent great risk for Summit Pointe. Substantial reduction of General fund revenues prompted us to review General fund expenditures, evaluate efficiency of operations, and set aside additional internal reserves. Significant decrease in General fund revenues was offset by a slight increase in Adult Benefit Waiver revenues – new program offered by the State of Michigan.

Program service revenue includes charges for services for consumers not covered by Medicaid risk contracts or state general fund revenue sources. These funds represent 1.3% of total revenue and have decreased by \$116 thousand or 10.1% over the prior year. Revenue diversification remains one of our top priorities. Marketing campaign, outpatient clinic business restructuring, implementation of evidence based best clinical practices and alternative outcome based compensation system for clinicians are under way and should ensure an increase in program service revenues in fiscal year 2007. We should improve our collections efforts, billing timeliness and accuracy.

Grants and special designated revenue includes revenue sources for which the use of funds is restricted to a specific purpose. These represent 0.7% of total revenue and have increased \$47 thousand or 8.4% over the prior year. The moderate growth was attributable to a new grant to support family psycho education evidence based practice.

County appropriation revenue, interest income and other local income are available to meet state matching fund requirements. These revenue sources constitute 1.1% of total revenue and

Management's Discussion and Analysis

For the fiscal year ended September 30, 2006

have increased \$272 thousand or 40.1% over the prior year. All of the increase in this source of revenue is attributable to interest income.

Revenues Analysis

For the years ended September 30, 2006 and 2005

	Fiscal Year 2006		Fiscal Year 2005	
Capitation Revenue				
Medicaid	68,354,103	84.5%	57,823,092	82.3%
General Fund	6,144,657	7.6%	6,666,387	9.5%
Adult Benefit Waiver	632,658	0.8%	612,870	0.9%
MI Child	19,350	0.0%	18,278	0.0%
Total Capitation Revenue	75,150,768	92.8%	65,120,627	92.7%
Special and Designated Funds				
OBRA PASSAR Evaluations	275,347	0.3%	274,267	0.4%
MIFPI	48,521	0.1%	49,285	0.1%
HHAP/PATH Housing Assistance	53,960	0.1%	42,524	0.1%
HUD	16,480	0.0%	57,387	0.1%
Juvenile Justice	27,710	0.0%	28,664	0.0%
Child Care Consultation	70,000	0.1%	69,733	0.1%
Family Psychoeducation and Self Help	76,497	0.1%	-	0.0%
Respite-Tobacco Tax	37,128	0.0%	37,228	0.1%
Total Special and Designated Funds	605,643	0.7%	559,088	0.8%
Local Funding				
County Appropriation	265,000	0.3%	265,000	0.4%
Earned Contracts and Other Revenue				
Contract Revenue	2,890,109	3.6%	2,392,104	3.4%
Net Patient Service Revenue	1,030,008	1.3%	1,146,412	1.6%
Interest Income	685,402	0.8%	412,733	0.6%
Rent Income	119,616	0.1%	62,230	0.1%
Miscellaneous	191,584	0.2%	261,051	0.4%
Total Earned Contracts and Other Revenue	4,916,719	6.1%	4,274,530	6.1%
Total Revenue	80,938,130	100.0%	70,219,245	100.0%

Total expenditures as percent (%) of revenues are presented in Table 4. Overall, total expenditures increased from 95.2% to 97.1% of total revenues. This increase is attributable to Medicaid QAAP paid to the State of Michigan. Significant savings were achieved in inpatient, residential, and community support services at Summit Pointe. It reflects our efforts to implement alternative service delivery models that resulted in increased customer satisfaction and decreased expenditures. Our agency is oriented for achieving best value and makes sure that the increase in cost efficiency and quality of services compliment each other. In addition,

Management's Discussion and Analysis

For the fiscal year ended September 30, 2006

the share of Medicaid expenditures incurred at Affiliates decreased from 52.3% to 49.4% of total revenues.

Expenditures Analysis

For the years ended September 30, 2006 and 2005

	Fiscal Year 2006		Fiscal Year 2005	
Total Revenues	80,938,130	100.0%	70,219,245	100.0%
Total Expenditures (Excluding Community Reinvestment)	78,610,149	97.1%	66,839,649	95.2%
Inpatient Services	1,554,223	1.9%	1,375,378	2.0%
Residential Services	4,335,473	5.4%	4,188,711	6.0%
Supportive and Other Services	3,659,114	4.5%	3,282,189	4.7%
Medicaid Supports & Services Incurred at Affiliates	39,946,853	49.4%	36,724,673	52.3%
External Healthcare Expenses, Total	49,495,662	61.2%	45,570,951	64.9%
Contract Programs	663,578	0.8%	647,898	0.9%
Client Support	4,141,747	5.1%	3,418,667	4.9%
Salaries and Fringes	7,155,908	8.8%	6,387,130	9.1%
Clinical Contracts	2,161,359	2.7%	1,769,108	2.5%
Contract Consultants	5,794,090	7.2%	4,268,833	6.1%
Community Education	398,964	0.5%	367,740	0.5%
Employee Development	1,004,292	1.2%	673,520	1.0%
Facilities	1,822,237	2.3%	1,650,150	2.3%
Local Funds Paid to DCH	1,110,749	1.4%	1,110,749	1.6%
Medicaid QAAP	4,087,944	5.1%	-	0.0%
General & Administrative	754,270	0.9%	913,685	1.3%
Miscellaneous	19,349	0.0%	61,218	0.1%

Personnel expense increased by 14.2% and reached \$9.3 million. However, its percent of total revenues decreased from 11.6 to 11.5. Research and development expenditures increased by 35.8%. Summit Pointe spent approximately \$5.8 million for these purposes. Local funds paid to DCH remained constant at \$1.1 million.

FUTURE OUTLOOK

The state of Michigan continues to struggle to balance huge budget deficits. Federal deficits are placing additional pressures on Medicaid funding. The effect of these on future funding for community mental health and specialty supports and services is unknown, but the outlook does not look good. The need for strategies to provide medical services for Medicaid recipients more effectively is growing. The cost of operating a Medicaid program has risen significantly over the past five years, an average of 9.4% per year from 2000 to 2006. The Federal government has expressed greater willingness to grant states more flexibility in the

Management's Discussion and Analysis

For the fiscal year ended September 30, 2006

operation of their Medicaid programs through the "1115 waiver" process. The MDCH has undertaken the process to re-base the rates for Medicaid capitation payments. The impact of new actuarially sound capitation rates in fiscal year 2008 is unknown. The adjustment of Medicaid rates in fiscal year 2007 may result in increase of Medicaid revenues for Venture Affiliation if the current Medicaid enrollment trend continues. However, the on-going attempts to smooth the results of rebasing may have negative impact on financial stability of Summit Pointe and its Affiliates. Support and service demand is expected to increase together with inflationary cost pressures. While the financial position of Summit Pointe is currently healthy, many challenges lie ahead. We understand the necessity to continue our innovative approaches to service delivery and community involvement. We will focus on implementing evidence based clinical practices, expanding natural supports for our customers, improving integration with primary care physicians, developing youth and senior prevention programs. One of the main strategic goals in fiscal year 2007 will remain continuing refinement of uniform benefit across Venture Affiliation, realization of shared efficiencies with our partners, and revenue diversification.

The following key areas require our permanent attention.

- **Enhanced HIT** (health information technology) to include analytic and operational systems, management reporting, electronic health records, and electronic data exchange. Installation and re-development of practice management and care management applications; changes in data warehousing, data extraction, and management information reporting will be necessary to achieve this goal. Business processes congruous with application support must be mapped and re-engineered.
- **Substance Abuse benefits administration.** It is anticipated that Summit Pointe will be designated as a Coordinating Agency (CA) at minimum for three of five VBH affiliate counties. It has been determined that the CA management structure will be embedded inside the VBH management structure. This will be no small task but is readily achievable with proper resources. Regardless of the outcome of our quest to become a CA attention will be given to system and administrative barriers to care for individuals with substance abuse or co-occurring disorders.
- **Administrative Efficiency.** Along with our clinical programs productivity focus, we will seek and find administrative cost-effectiveness enhancements inside the benefits management functions. We will seek and perform focused and specific options for administrative efficiencies in PIHP functions complete with savings estimates. Additionally, we will enhance business process mapping, expensing and operations engineering support and expertise.
- **Regulatory compliance in the Medicaid Program.** The PIHP will strengthen and assure regional compliance to federal and state regulatory and contractual obligations, including new MDCH Compliance Examination Guidelines. It is no secret that federal and state budgets are wanting, and that federal and state policy makers have invested heavily in Medicaid fraud and abuse prevention, audits and take-backs. Penalties are severe and additional federal focus inside the Deficit Reduction Act (among others) is plain. What used to be sloppiness may now constitute abuse; what used to be abuse is now increasingly determined to be fraud. We will assure 100% reporting of compliant

Management's Discussion and Analysis

For the fiscal year ended September 30, 2006

Medicaid encounters, claims and costs and 0% reporting of non-compliant Medicaid encounters, claims and costs. Member protections will be further strengthened and documented.

- **Health Resource Management (HRM).** A new HRM regional plan with an outlier management focus has been approved by the VBH Board. Through it and its related IS-IT and staff function supports we will reduce our utilization management functional cost burden, assure uniformity of benefit, enhance system capacity for analytics and reporting, reduce intrusions into clinical care, and enhance local control and consumer choice without sacrificing Member safeguards and at-hand performance proofs.
- **Evidence-Based Practices (EBP).** Evidence-based, model and promising practices have been identified and largely installed. While others may be installed, our focus now is on assuring proper client-clinician matching and fidelity to the practices. While we need not perform primary research we must attend to the results of these efforts.
- **Management Information Systems.** Using data and information, we will extend both internal management reporting at all levels, seek and use external comparative benchmark data, and develop a sophisticated evaluation and feedback system supporting continuous quality improvement in both clinical and administrative areas. It is imperative that region-wide PIHP performance measure scores are brought to and maintained at standard quickly.
- **Coordination of Care.** We will strengthen the relations and interactions with Medical Health Plans (MHPs) to immediate member benefit and intermediate system and VBH affiliate benefit.
- **Uniform Benefit.** We will assure common understanding, adherence to, provision, and documentation of the multiple Medicaid and non-Medicaid plans and benefits throughout the region. Each PIHP provider and managed care function will meet process, program and product requirements.
- **Public policy.** We will use our growing relations and influence with both federal and state elected and appointed officials as well as ally professional and trade associations to advocate for policies which best meet the needs of those we serve.

Customers needs remain our top priority that will drive all clinical and financial decisions. Summit Pointe is committed to "Making Life Works" for its customers.

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

SUMMIT POINTE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006 AND 2005

	Governmental Activities	
	2006	2005
Assets		
Current assets		
Cash and investments - unrestricted	\$16,332,286	\$14,400,105
Accounts receivable, net	834,649	905,714
Due from other governmental units	2,454,409	1,788,102
Prepaid expenses	1,171,627	1,121,552
Total current assets	20,792,971	18,215,473
Noncurrent assets		
Cash and investments - restricted	5,461,865	4,924,441
Capital assets - depreciable, net	1,924,599	1,415,279
Capital assets - land	73,865	67,365
Total noncurrent assets	7,460,329	6,407,085
Total assets	28,253,300	24,622,558
Liabilities		
Current liabilities		
Accounts payable	8,164,921	6,573,951
Due to other governmental units	1,332,237	796,657
Accrued wages and other payroll liabilities	483,289	455,511
Accrued expenditures	287,673	235,165
Total liabilities	10,268,120	8,061,284
Net Assets		
Invested in capital assets, net of related debt	1,998,464	1,482,644
Restricted for:		
Community reinvestment	6,340,644	2,211,808
Risk management	5,352,448	4,483,021
Unrestricted	4,293,624	8,383,801
Total net assets	\$17,985,180	\$16,561,274

The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006, WITH COMPARATIVE DATA

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Changes Net Assets	2005
		Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	<u>\$80,892,743</u>	<u>\$72,585,420</u>	<u>\$7,667,308</u>	(\$640,015)	(\$576,426)
General revenues					
Transfers in from affiliated boards				775,459	1,185,612
Unrestricted investment earnings				685,402	412,733
Restricted investment earnings				<u>191,827</u>	<u>42,605</u>
Total general revenues and contributions				<u>1,652,688</u>	<u>1,640,950</u>
Change in net assets				1,012,673	1,064,524
Net assets - beginning of year				16,561,274	15,475,535
Prior period adjustment				<u>411,233</u>	<u>21,215</u>
Net assets - end of year				<u>\$17,985,180</u>	<u>\$16,561,274</u>

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

SUMMIT POINTE
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006 AND 2005

	General Fund	
	2006	2005
Assets		
Cash And Investments - Unrestricted	\$13,664,448	\$14,400,105
Cash And Investments - Restricted	2,777,255	441,420
Accounts Receivable, Net	834,649	905,714
Due From Other Governmental Units	2,454,409	1,788,102
Prepaid Expenses	1,171,627	1,121,552
Total Assets	<u>\$20,902,388</u>	<u>\$18,656,893</u>
Liabilities		
Accounts Payable	\$8,164,921	\$6,573,951
Due To Other Governmental Units	1,332,237	796,657
Accrued Wages & Other Payroll Liabilities	483,289	455,511
Accrued Expenditures	287,673	235,165
Total Liabilities	<u>10,268,120</u>	<u>8,061,284</u>
Fund Balance		
Reserved For Prepaid Expenses	1,171,627	1,121,552
Reserved For Community Reinvestment	5,169,017	2,211,808
Unreserved	4,293,624	7,262,249
Total Fund Balances	<u>10,634,268</u>	<u>10,595,609</u>
Total Liabilities And Fund Balances	<u>\$20,902,388</u>	<u>\$18,656,893</u>

The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Total fund balance - governmental funds	\$10,634,268
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: Capital assets	4,802,515
Deduct: Accumulated depreciation	(2,804,051)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add: Net assets of governmental activities accounted for in the internal service fund	5,352,448
	<hr/>
Net assets of governmental activities	<u><u>\$17,985,180</u></u>

The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

REVENUES	General Fund	
	2006	2005
State Grants		
Capitation Revenue		
Medicaid	\$68,354,103	\$57,823,092
General Fund	6,144,657	6,666,387
Adult Benefit Waiver	632,658	612,870
MI Child	19,350	18,278
Total Capitation Revenue	75,150,768	65,120,627
Respite -Tobacco Tax	25,060	31,309
Child Care Consultation Revenue	70,000	-
Family Psychoeducation Program Revenue	69,528	-
Self Help Drop-In Center	6,969	-
PAS / ARR Grant	68,837	68,567
Total State Grants	75,391,162	65,220,503
Federal Grants		
PATH/Housing Assistance	53,960	42,524
MIFPI - Wraparound	48,521	49,285
Respite Services	12,068	5,919
Juvenile Justice	27,710	28,664
HUD	16,480	57,387
Child Care Consultation	-	69,733
PAS / ARR Grant	206,510	205,700
Total Federal Grants	365,249	459,212
Contributions - Local Units		
County Funding	265,000	265,000
Total Contributions - Local Units	265,000	265,000
Earned Contracts and Other Revenue		
Other Grants	-	127,453
Contract Revenue	2,890,109	2,392,104
Net Patient Service Revenue	1,030,008	1,146,412
Interest Income	685,402	412,733
Rent Income	119,616	62,230
Other	191,584	133,598
Total Earned Contracts and Other Revenue	4,916,719	4,274,530
Total Revenues	80,938,130	70,219,245

The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	General Fund	
	2006	2005
EXPENDITURES		
Health & Welfare - Mental Health		
Inpatient	\$1,554,222	\$1,375,378
Residential	4,708,677	4,188,711
Contract Programs	3,034,152	647,898
Support And Other Services	4,032,319	4,444,063
Salaries and Fringes	7,155,908	6,387,130
Clinical Contracts	2,161,359	1,769,108
Client Support	1,771,173	3,418,667
Contract Consultants	5,794,089	4,268,833
Community Education	398,964	367,740
Employee Development	1,004,292	673,520
Facilities	943,312	873,685
General and Administrative	754,270	913,685
Local Funds Paid To DCH	1,110,749	1,110,749
Medicaid Supports & Services - Affiliates	41,483,039	38,954,078
Medicaid QAAP Expense	4,087,944	-
Miscellaneous	19,349	61,218
Small Equipment	434,757	309,366
Capital Outlay	574,053	467,099
Total Expenditures	<u>81,022,628</u>	<u>70,230,928</u>
Excess Of Revenues Over Expenditures	(84,498)	(11,683)
Other Financing Sources (Uses)		
Operating Transfers In (Out) - From Affiliated Boards	775,459	1,185,612
Operating Transfers In (Out) - Internal Service Fund	<u>(677,600)</u>	<u>319,204</u>
Excess Of Revenues Over (Under) Expenditures And Other Sources And Uses	13,361	1,493,133
Fund Balance, October 1	10,595,609	9,081,261
Prior Period Adjustment	<u>25,298</u>	<u>21,215</u>
Fund Balance, September 30	<u>\$10,634,268</u>	<u>\$10,595,609</u>

The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Net change in fund balances - total governmental funds	\$13,361
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Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However,
in the statement of activities, the cost of those assets is allocated over
their estimated useful lives as depreciation expense.

Add: Capital outlay	574,053
Deduct: Depreciation expense	(444,168)

An internal service fund is used by management to cover the risk of
overspending the Managed Care Specialty Services Program contract.
The net revenue (expense) of the fund attributable to those funds is
reported with governmental activities.

Add: Interest income from governmental internal service fund	191,827
Add: Transfers in from general fund	677,600

Change in net assets of governmental activities	<u><u>\$1,012,673</u></u>
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The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2006 AND 2005

	Internal Service Fund	
	2006	2005
Assets		
Cash And Cash Equivalents	\$5,352,448	\$4,483,021
Total Assets	<u>\$5,352,448</u>	<u>\$4,483,021</u>
Net Assets		
Restricted	\$5,352,448	\$4,483,021
Total Net Assets	<u>\$5,352,448</u>	<u>\$4,483,021</u>

The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006 AND 2005

	Internal Service Fund	
	2006	2005
Non-Operating Revenue		
Interest Income	\$191,827	\$42,605
Operating Transfers In (Out)		
Operating Transfers In - Affiliated Boards	660,930	-
Operating Transfers Out - Abatement	(43,739)	(319,204)
Total Operating Transfers In (Out)	617,191	(319,204)
Change in Net Assets	809,018	(276,599)
Net Assets, Beginning of Year	4,483,021	4,759,620
Prior Period Adjustment	60,409	-
Net Assets, End of Year	<u>\$5,352,448</u>	<u>\$4,483,021</u>

The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006 AND 2005

	Internal Service Fund	
	2006	2005
Cash Flows From Operating Activities		
Payments From Other Governmental Entities	-	\$19,699
Internal Activity - Payments From Other Funds	-	-
Total Cash Flows From Operating Activities	-	19,699
Cash Flows From Investing Activities		
Interest Revenue	\$191,827	42,605
Cash Flows From Capital And Related Financing Activities		
Operating Transfers In	660,930	-
Operating Transfers Out - Other	(43,739)	-
Operating Transfers (Out) - Abatement	-	(319,204)
Total Cash Flows From Capital And Related Financing Activities	617,191	(319,204)
Net Increase In Cash And Cash Equivalents	809,018	(256,900)
Cash And Cash Equivalents, Beginning of Year	4,483,021	4,739,921
Prior Period Adjustment	60,409	-
Cash And Cash Equivalents, End of Year	<u>\$5,352,448</u>	<u>\$4,483,021</u>
Adjustment To Reconcile Net Income		
To Net Cash Provided By Operating Activities:		
(Increase) Decrease In:		
Due From Other Governmental Units	-	\$19,699
Due From Other Funds	-	-
Net Cash Provided (Used) From Operating Activities	<u>-</u>	<u>\$19,699</u>
Reconciliation of Operating Income To Net Cash Provided		
By (Used for) Operating Activities:		
Operating Income (Loss)	NA	NA

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Summit Pointe (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

Reporting Entity

The Authority operates under the provisions of Act 258- Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Authority arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of the County of Calhoun who meet eligibility and other criteria. As the community mental health services provider for Calhoun County, the Authority also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Governmental activities normally are supported by intergovernmental revenues.

Summit Pointe
Notes To The Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements (statement of net assets and statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Summit Pointe Notes To The Financial Statements

Intergovernmental revenue, charges for services and other revenues associated with the current fiscal period are all considered susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at year end has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Authority reports the following major governmental and proprietary funds:

Governmental Funds

General Fund – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Summit Pointe
Notes To The Financial Statements

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Budgetary Data

The Authority adopts an annual budget for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Receivables and Payables Between Funds

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due/to other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health, the State of Michigan, and other Community Mental Health Boards.

Summit Pointe
Notes To The Financial Statements

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as the projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Authority are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Equipment & Furnishings	3-7
Buildings & Improvements	2-10
Computers	3
Land	Not Depreciated

Restricted Assets

Cash has been restricted for future payment of the compensated absences liability. These restricted assets are held in a separate cash account with local financial institutions. Cash and Investments in the Internal Service Fund have been restricted for the expected future risk corridor requirements of the master contracts with DCH.

Inpatient / Residential Cost Liability

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated amount due to reimbursements from third party payers that are applied to the total cost before the billings are sent to the Authority.

Deferred Revenue

Deferred revenues arise when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Net Assets and Fund Balances

Restricted net assets shown in the government-wide financial statements will generally be different from amounts reported as reserved/designated fund balances in the governmental funds financial statements. This occurs because of differences in the measurement focus and basis of accounting used in the government-wide and fund financial statements and because of the use of funds to imply that restrictions exist.

Fund Balances - Reserves and Designations

Fund balances in the governmental funds financial statements are reported as reserved when a portion of fund balance is either:

- Not available for appropriation for expenditure, or
- Legally segregated for a specific future use.

Fund balances in the governmental funds financial statements may be reported as designated to reflect management's self-imposed limitations on the use of otherwise available financial resources. Designations represent management's intended use of resources and should reflect actual plans approved by them.

Ionia County Community Mental Health

Notes To The Financial Statements

Net Assets - Restrictions

Net assets in the government-wide financial statements are reported as restricted when constraints placed on net assets use is either:

- Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

MDCH Revenue

General Fund Revenue

The Authority provides mental health services on behalf of the Michigan Department of Community Mental Health (MDCH). Currently, the Authority contracts directly with the MDCH for General Fund revenues to support the services provided for priority population residing in Calhoun County.

Medicaid Revenue

Also, Summit Pointe serves as the Pre-Paid Inpatient Health Plan (known as Venture Behavioral Health) for the area that includes Barry, Berrien, Branch, Calhoun, and Van Buren Counties. Venture Behavioral Health contracts directly with the MDCH to receive Medicaid revenues for Medicaid-qualified services provided to the residents of these counties to administer these Medicaid funds.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the functional level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess Of Expenditures Over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2006, the Authority incurred expenditures in excess of the amounts appropriated as shown on the schedule in the back of this report as unfavorable variances.

Summit Pointe
Notes To The Financial Statements

NOTE 3. DETAIL NOTES

Cash and Cash Equivalents

At September 30th the carrying amount of the Authority's cash and cash equivalents was as follows:

Cash and Cash Equivalents	2006	2005
Petty Cash	\$925	\$975
Checking, Savings, & Money Market Accounts	16,317,142	12,202,163
Certificates of Deposit	2,797,000	3,315,864
Totals	\$19,115,067	\$15,519,002

Restricted Cash and Cash Equivalents

Cash has been restricted for future payment of the compensated absences liability in the amount of \$109,417. These restricted assets are held in a separate cash account with local financial institutions.

Cash and Investments in the Internal Service Fund have been restricted in the amount of \$5,352,448 for the expected future risk corridor requirements of the MDCH contract.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. The Authority does not have a policy for custodial risk over deposits.

As of the end of the current fiscal year, \$2,821,557 of the Authority's \$22,399,414 bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized.

Deposits which exceed FDIC insurance coverage limits are held at local banks. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits.

As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Summit Pointe
Notes To The Financial Statements

Investments

State statutes authorize the Authority to invest surplus funds in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments.

The Authority's investment policy complies with the State statutes and has no additional investment policies that would limit its investment choices.

The Authority's investments can be classified into three categories to give an indication of the level of risk assumed. *Category 1* includes investments that are insured or registered or securities held by the Authority or its agent in the Authority's name. *Category 2* includes uninsured and unregistered investments that are held by the counterparty's trust department or agent in the Authority's name. *Category 3* includes uninsured and unregistered investments for which the securities are held by counterparty's trust department or agent but not in the Authority's name.

At September 30th the investments of the Authority was as follows:

Investments	Category 1	Carrying Value	Market Value
Commercial Paper	\$1,565,938	\$1,565,938	\$1,565,938
Government Cash Mgt. Fund	113,146	113,146	113,146
Federal Home Loan Bank Bonds	1,000,000	1,000,000	1,000,000
Totals	\$2,679,084	\$2,679,084	\$2,679,084

Interest Rate Risk – Investments

Under State statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Authority's investment policy complies with the State guidelines and seeks to minimize interest rate risk by investing primarily in short-term securities, liquid assets, money market funds, or similar investment pools and limiting average maturities.

The Authority's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Summit Pointe
Notes To The Financial Statements

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of its investments that are in the possession of an outside party. The Authority requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts.

The Authority does not have any additional policies for custodial credit risk over investments.

Credit Risk - Investments

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks.

The Authority's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

Concentration of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer.

Accounts Receivable

Accounts receivable represents amounts due from third party payers, patients, and others for services rendered, advance deposits, and refunds. Amounts are stated net of allowances for doubtful accounts.

Summit Pointe
Notes To The Financial Statements

Due from Other Governmental Units

Due from other governmental units as of September 30th, consists of the following:

Due From:	2006	2005
State of Michigan - OBRA	\$71,330	\$67,387
State of Michigan - Wraparound	11,133	23,508
State of Michigan - PATH/Homeless Housing	3,389	31,481
State of Michigan - Juvenile Justice	7,500	8,858
State of Michigan -- Drop In Center	5,195	-
State of Michigan -- Child Care Consultation	16,971	17,606
State of Michigan - DCH	240,951	638,921
State of Michigan - Respite	3,017	1,973
State of Michigan - MRS Education	13,750	-
State of Michigan HUD Grant	14,630	1,149
State of Michigan -- Family Psychoeducation	14,486	-
County of Calhoun	66,250	66,250
Other Mental Health Boards	1,985,807	930,969
Totals	\$2,454,409	\$1,788,102

Prepaid Expenses

Prepaid expenses at September 30th represent payments for the following expenses that will benefit future periods:

Prepaid Expenses	2006	2005
Insurance	\$49,915	\$16,853
Leases	1,108,380	1,101,110
Other	13,332	3,589
Totals	\$1,171,627	\$1,121,552

Summit Pointe
Notes To The Financial Statements

Capital Assets

Capital assets activity for the year ended September 30, 2006 was as follows:

Governmental Activities	Beginning Balance	Additions	Disposals	Ending Balance
Equipment & Furnishings	\$465,298	\$329,633	-	\$794,931
Buildings & Improvements	2,365,438	116,528	-	2,481,966
Computers	1,330,361	121,392	-	1,451,753
Land	67,365	6,500	-	73,865
Sub-totals	4,228,462	574,053	-	4,802,515
Accumulated Depreciation	(2,745,818)	(58,233)	-	(2,804,051)
Totals	\$1,482,644	\$515,820	-	\$1,998,464

Depreciation expense in the amount of \$444,168 was charged to Health and Welfare – Mental Health Program. A prior period adjustment in the amount of \$385,935 was also posted to accumulated depreciation during the current year resulting in a net change to accumulated depreciation of \$58,233.

Due to Other Governmental Units

Due to other governmental units as of September 30th, consist of the following:

Due To	2006	2005
State Of Michigan – DCH Cost Settlement	1,054,233	\$638,716
State and Community Inpatient	278,004	157,941
Totals	\$1,332,237	\$796,657

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

Summit Pointe
Notes To The Financial Statements

Accrued Expenditures

This liability represents accrued FICA, Medicare, retirement, and unemployment expenses, related to salaries and wages payable as of September 30th, amounts withheld from employee's paychecks but not yet remitted to the appropriate governmental unit, and accrued compensated absences as follows:

Accrued Expenditure	2006	2005
Pension Payable	\$126,193	\$100,339
MESC Payable	29,578	18,796
Flexible Spending Withholding Payable	5,407	8,885
Accrued Compensated Absences Payable	109,417	97,146
Other	17,078	9,999
Totals	\$287,673	\$235,165

Compensated Absences

The Authority's policy allows employees to accumulate up to 40 hours of scheduled time off in addition to their annual accrual. Any excess accumulation shall be forfeited. Amounts accumulated are to be paid to an employee and recognized as an expense either when vacations are actually taken or upon termination of employment. At the end of the current fiscal year the vacation pay liability was \$81,201.

The Authority's policy allows employees 48 hours of unscheduled time off per year. Employees under a union agreement may carry these hours into future years, but no more than 112 hours may be accumulated at any one time. Amounts accumulated are to be paid to an employee and recognized as an expense when time is taken. Upon termination of employment, employees are paid for their unused time on a pro-rated basis based on their years of service. At the end of the current fiscal year the unscheduled time off liability was \$28,216.

The amount of the compensated absences liability recognized in the general fund is equal to the amount estimated to be paid during the 90 days immediately following year-end.

Leases

Summit Pointe has entered into two operating leases for the use of two buildings. Both leases were entered into on December 1, 1996. The terms of both leases call for 240 equal monthly payments of \$16,700 and \$6,465. Operating leases do not give rise to property rights or lease obligations, and therefore, the lease agreements are not reflected in the government-wide financial statements or the fund financial statements.

Summit Pointe
Notes To The Financial Statements

The following is a schedule of future minimum rental payments required under the above operating leases that have initial or remaining noncancelable lease terms as of September 30, 2006:

Year Ending September 30th	Minimum Payments
2007	\$277,980
2008	\$277,980
2009	\$277,980

Prior Period Adjustments

Prior period adjustments represent the adjustment to fund balance due to the following:

Adjustment	2006	2005
Cost Settlement – 9/30/04	-	\$21,215
Medicaid Savings – HSW Accrual	(\$8,114)	-
Transfer In From Lakeshore CA - ISF	33,412	-
Total Increase (Decrease) To Fund Balance	\$25,298	\$21,215

Prior period adjustments represent the adjustment to net assets due to the following:

Adjustment	2006	2005
Cost Settlement – 9/30/04	-	\$21,215
Medicaid Savings – HSW accrual	(\$8,114)	-
Transfer In From Lakeshore CA - ISF	33,412	-
Accumulated Depreciation	385,935	-
Total Increase (Decrease) To Net Assets	\$411,233	\$21,215

Restrictions and Reserves

A portion of the net assets has been restricted equal to the net amount available in the Internal Service Fund (risk management) which has been set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Net assets have been restricted and fund balance has been reserved for the amount of Medicaid Savings realized from the Michigan Department of Community Health's Managed Specialty Supports and Services Contract. As of September 30, 2006, this amount was \$6,340,644 and must be used according to the Authority's reinvestment strategy in fiscal year 2007.

Summit Pointe
Notes To The Financial Statements

In the fund level financial statements a portion of the fund balance at September 30th has been reserved equal to the amount of prepaid expenses, since prepaid expenses do not constitute "available spendable resources."

NOTE 4. OTHER INFORMATION

Compliance Audits

The Authority participates in various federal, state, and local grants for mental health programs. Certain provisions and allowable levels of participation and expenditures not qualifying for participation are subject to interpretation and adjustment by appropriate governmental agencies. State grants are subject to audit by responsible state agencies. Although these audits may result in some changes, they are not expected to have a material effect on the financial statements.

Pension Plan

Plan Description

The employees of the Authority are covered under a defined contribution (401 k) retirement plan. Each employee is eligible to be a member of this plan after one year of service. The plan provides for normal retirement at age 65. Early retirement is available after age 55.

When early or normal retirement age is reached the vesting percentage automatically is 100%. The vesting percent will also become 100% if the plan terminates. If an employee leaves the job before age 65, dies, or becomes disabled, vesting will be based on the following schedule:

Years of Participation	Vested Percentage
Less than 1	0
More than 1	100

Funding Policy

Each member may direct up to \$14,000 of his or her compensation to the plan on a pre-tax basis. The maximum percentage may vary from year to year because it is based on the average of the contributions made by all employees. Salary deferrals may not be distributed to the employees before they reach age 59 1/2 except for death, disability, termination of employment, or hardship.

Summit Pointe
Notes To The Financial Statements

The Authority will contribute to the plan, on the employee's behalf, a matching contribution equal to \$.60 for each \$1.00 of salary deferrals made by the employee up to a maximum contribution for each plan year of 5% of the employee's compensation for the plan year. The Authority has no additional liability beyond these contributions.

FICA Alternative Plan

Plan Description

The effective date of the plan is November 4, 1996. The primary purpose of the plan is to provide for pension contributions for participants. The plan is maintained as an alternative to the Social Security system. The plan and related trust are intended to satisfy the requirements for tax qualification as a money purchase pension plan under sections 401(a) and 501(a) of the Internal Revenue Code of 1986 as applied to governmental plans and the requirements for a retirement system under section 312(b)(7)(F) of the Code as applied to governmental employees. All employees are eligible to participate.

Funding Policy

The employer and employee both contribute 6.2% each of the participant's compensation for the plan year. Participants are fully vested at all times. All funds are placed into a pooled account and invested. The current investment manager is Northern Trust. The current third party administrator is Watkins Ross.

Risk Management

Michigan Municipal Risk Management Authority

The Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage. The Authority is also subject to additional risk associated with the Managed Care Specialty Supports and Services Contract as further described in these notes.

The MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities. As a member of this pool, The Authority is responsible for paying all losses, including damages, loss adjustment expenses and defense cost, or for each occurrence that falls within the member's self-insured retention. If a covered loss exceeds The Authority's limits, all further payments for such loss are the sole obligation of The Authority. If, for any reason, the MMRMA resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

The Authority's coverage limits are \$15,000,000 for liability and \$1,500,000 for vehicle physical damage.

Summit Pointe
Notes To The Financial Statements

Internal Service Fund

The Authority authorized the establishment of an internal service fund. This fund is used to cover the risk of overspending the Managed Care Specialty Services Program Contract and the State General Fund Contract within the established risk corridor. These contracts provide for the use of Department of Community Health funding for the establishment of Internal Service Funds.

Expenditures from this fund will occur when, in any one fiscal year, the Authority finds it necessary to expend more to provide services to carry out the contract requirements than revenue provided by the contract.

Incurred but Not Reported Liabilities

Health claims and health claims payable include estimates of obligations for health care services that have been rendered on behalf of members for which claims have either not yet been received or processed. Claim reserves for health costs incurred but not reported are estimated using generally accepted actuarial methods and in accordance with Actuarial Standards of Practice promulgated by the Actuarial Standards Board, the committee of the American Academy of Actuaries that establishes the professional guidelines and standards for actuaries to follow.

The methodology used by Gabriel Roeder Smith & Company calculates the total reserve, which includes both the reported and unpaid claims (pending reserve) and the incurred but not reported claims (IBNR). The actuarial models used in estimating reserves consider factors such as historical data adjusted for payment patterns, cost trends, service and benefit mix, seasonality, utilization of health care services, internal processing changes, the amount of time it took to pay claims from prior periods, changes in the past few months in the claims adjudication procedures, changes in benefits, events that would lead to excessive claims, large increase or decrease in membership, seasonality, and other relevant factors.

Economic Dependency

Revenues paid either directly or indirectly by the Michigan Department of Community Health represent over 90% of the Authority's total revenues.

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

SUMMIT POINTE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDING SEPTEMBER 30, 2006

REVENUES	Budgeted Amounts		Actual	Variances Between Actual and Final Budget
	Original	Final		
State Grants				
Capitation Revenue				
Medicaid	\$69,067,880	\$68,350,000	\$68,354,103	\$4,103
General Fund	6,505,417	6,105,417	6,144,657	39,240
Adult Benefit Waiver	632,192	632,192	632,658	466
MI Child	18,000	18,000	19,350	1,350
Total Capitation Revenue	76,223,489	75,105,609	75,150,768	45,159
Respite - Tobacco Tax	12,307	12,307	25,060	12,753
Child Care Consultation Revenue	70,000	70,000	70,000	-
Family Psychoeducation Program Revenue	92,226	92,226	69,528	(22,698)
Self Help Drop-In Center	-	7,000	6,969	(31)
PAS / ARR Grant	64,823	64,823	68,837	4,014
Total State Grants	76,462,845	75,351,965	75,391,162	39,197
Federal Grants				
PATH/Housing Assistance	56,310	56,310	53,960	(2,350)
MIFPI - Wraparound	50,000	50,000	48,521	(1,479)
Respite Services	12,067	12,067	12,068	1
Juvenile Justice	40,000	40,000	27,710	(12,290)
HUD	3,384	3,384	16,480	13,096
PAS / ARR Grant	194,468	194,468	206,510	12,042
Total Federal Grants	356,229	356,229	365,249	9,020
Contributions - Local Units				
County Funding	265,000	265,000	265,000	-
Total Contributions - Local Units	265,000	265,000	265,000	-
Earned Contracts and Other Revenue				
Contract Revenue	2,856,669	2,856,669	2,890,109	33,440
Net Patient Service Revenue	1,584,964	1,200,000	1,030,008	(169,992)
Interest Income	425,000	600,000	685,402	85,402
Rent Income	47,202	90,000	119,616	29,616
Other	146,282	146,282	191,584	45,302
Total Earned Contracts and Other Revenue	5,060,117	4,892,951	4,916,719	23,768
Total Revenues	82,144,191	80,866,145	80,938,130	71,985

The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDING SEPTEMBER 30, 2006

	Budgeted Amounts			Variances Between Actual and Final Budget
	Original	Final	Actual	
EXPENDITURES				
Health & Welfare - Mental Health				
Inpatient	\$1,219,306	\$1,400,000	\$1,554,222	(\$154,222)
Residential	4,980,000	4,980,000	4,708,677	271,323
Contract Programs	2,474,176	2,624,176	3,034,152	(409,976)
Support and Other Services	3,783,712	3,783,712	4,032,319	(248,607)
Salaries and Fringes	7,399,153	7,399,153	7,155,908	243,245
Clinical Contracts	2,999,600	2,200,000	2,161,359	38,641
Client Support	1,855,101	1,855,101	1,771,173	83,928
Contract Consultants	5,625,979	5,625,979	5,794,089	(168,110)
Community Education	386,560	386,560	398,964	(12,404)
Employee Development	1,084,163	1,084,163	1,004,292	79,871
Facilities	1,032,406	1,032,406	943,312	89,094
General and Administrative	813,171	813,171	754,270	58,901
Local Funds Paid To DCH	1,110,749	1,110,749	1,110,749	-
Medicaid Supports And Services - Affiliates	42,385,637	41,500,000	41,483,039	16,961
Medicaid QAAP Expense	4,144,073	4,101,000	4,087,944	13,056
Miscellaneous	74,800	74,800	19,349	55,451
Small Equipment	231,375	450,000	434,757	15,243
Capital Outlay	431,143	431,143	574,053	(142,910)
Total Expenditures	82,031,104	80,852,113	81,022,628	(170,515)
Excess Of Revenues Over Expenditures	113,087	14,032	(84,498)	(98,530)
Other Financing Sources (Uses)				
Operating Transfers In (Out) - From Affiliated Boards	758,885	758,885	775,459	16,574
Operating Transfers In (Out) - From Int. Service Fund	(700,000)	(650,000)	(677,600)	(27,600)
Excess Of Revenues Over (Under) Expenditures And Other Sources And Uses	171,972	122,917	13,361	(109,556)
Fund Balance, October 1	9,904,358	10,595,609	10,595,609	-
Prior Period Adjustment	-	-	25,298	25,298
Fund Balance, September 30	\$10,076,330	\$10,718,526	\$10,634,268	(\$84,258)

The notes to the financial statements are an integral part of this statement.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Summit Pointe
Battle Creek, Michigan

We have audited the financial statements of the governmental activities and each major fund of Summit Pointe (the Authority) as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.


Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of the Authority in a separate letter dated December 12, 2006.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.



Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 12, 2006



MANAGEMENT LETTER

Board of Directors
Summit Pointe
Battle Creek, Michigan

In planning and performing our audit of the financial statements for Summit Pointe for the fiscal year ended September 30, 2006, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated December 12, 2006 on the financial statements of Summit Pointe.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 12, 2006

Summit Pointe
Management Letter

STATUS OF PRIOR YEAR COMMENTS AND RECOMMENDATIONS

We were pleased to see that management has implemented our recommendations we included in our previously issued Management Letter.

We commend you on your efforts to strengthen internal controls and operating efficiencies.

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

Outstanding Payroll Checks

During our audit we noted that several old outstanding payroll checks are being carried on monthly cash reconciliations. This causes additional time to be spent by personnel to reconcile the bank accounts each month.

We recommend that payroll checks that are over three months old be investigated and removed from the bank reconciliation and that the original transaction is reversed.

Account Reconciliations

During our audit we found that some of the smaller payroll related liability accounts did not reconcile to supporting documentation or subsequent remittances.

Management should periodically reconcile these liability balances to supporting documentation and monitor the subsequent payment of the liability amounts to determine that they are fairly reflected in the financial statements.